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In the issue:

The Secret of IME (15 years since the registration of the Institute)
GDP during 2007
The Dundee Case – A Story of Hidden Nationalization
About the State Fees
Some Aspects from the New Sofia's Management Programme
Private Property?
The Labor Force and the “Import” of Workers
Support IME

The Secret of IME

(15 years since the registration of the Institute)

Krassen Stanchev

Outside the narrow professional circles it is unlikely that anybody knows that last week was the fifteenth anniversary since the registration of the Institute for Market Economics (IME). Many probably do not know also that after fourteen years of managing the Institute, the author is only a supervisor of its work. However, Svetla Kostadinova is already known as its director.

Language and Historic remarks

The idea of IME came about in 1992 and was implemented as a typical “think tank” after March 1993, when with a few exceptions – Lithuanian Free Market Institute (www.lrinka.lt), The Gdansk Institute for Market Economics (<http://www.ibngr.edu.pl/english/index2.htm>), the CASE Institute (www.case.com.pl) and some other “think tanks” were very rare in Central and Eastern Europe. I myself understood about the existence of the Gdansk Institute during my visit (with educational purpose) to the Heritage Foundation (www.heritage.org) during April 1993. The name of the Institute for Market

Economics was given by the then ambassador to the USA Mr. Ognian Pishev. Actually, from that time until now there are not significant changes in the way the Institute operates.

“Think tank” could be translated into Bulgarian as “a reservoir for thoughts” or “a brain trust”. I could testify that all translations are equally correct and that the think tanks are political i.e. based on a certain value system institutes.

The first such tank (The Institute for Economic Affairs, IEA, in the United Kingdom - <http://www.iea.org.uk/>) was established during 1955 based on the idea of Friedrich von Hayek. Hayek is a great thinker, but a lousy administrator. The will and engagement of Ralph Harris (later Baron Harris of High Cross for his contribution to the prosperity of the British people) were required to start the actual work of dismantling of the socialist economic policy in the UK and the World. The example became contagious, particularly in the US and North America. In the US with particular influence are known the already mentioned Heritage Foundation, the Cato Institute (www.cato.org), the American Enterprise Institute (www.aei.org) – to mention a few. From Canada today the entire World knows the Fraser Institute (www.fraserinstitute.org), with which IME and seventy other think tanks publish The Economic Freedom of the World Reports (www.freetheworld.org).

After the fall of the Berlin wall the movement spreads to Eastern Europe. After Eastern Europe – a wave of new mainly orientated towards market and freedom think tanks comes to Western Europe, while the old such organizations are very enthusiastic about the success of Eastern Europe. This happened even in prosperous countries like Germany and France. Today most such institutes are united in Free Europe Coalition.

I enclose the web sites of these reservoirs of thought, because from them one could check how they are connected to each other (for example: they work jointly on many projects or representatives of one are members of the consultative councils of others).

“Thought Factories”

Even a brief overview of the above mentioned web pages would show that these institutes are different from the so-called “thought factories” or “institutes for public policies”, as incorrectly sometimes the “think tank” is translated.

These “factories” are characterized with their belief that a man could think something new only because he would like to think of something new. Thinking here is understood as the fruit of one type of company organization.

In addition, they believe in some version of the tale about the good king, i.e. either if you give to the government some idea, it will apply it, or either that the government has the good will “in the interest of the public” (which by itself most probably does not exist) and most often is part of the solution. A consequence of that belief is the fact, that these structures could come up with any policy for which one could pay and by that they look alike the Brussels’s consulting companies, which could do any project, regardless of how unreasonable it is. The economists in such institutions are something as servants to the governments and their effort to redistribute or in the worst case – ideologists.

I will abstain from showing such web sites.

The Secret Weapons of IME and the Market Orientated Political Institutes

During the fifteen years I do not remember a significant problem of the people in Bulgaria, which had not passed through the Institute. The list could begin with the seemingly far removed

from the economic problems with the former “collaborators” with the communist repressive apparatus. Than one could mention the attempts to buy, personal use and expropriate the Institute, which on a different level are a significant problem for the Bulgarian economy. There were problems like political and value system division, attempts to steal resources and ideas, complete lack of funds on the border of bankruptcy, struggle with economic illiteracy and destruction of mental fossils, loss of money in bankrupt banks, lack of people and alike.

The details are not really interesting, except for the lovers of soap operas.

Regardless of whether it was a question internal or external to the Institute problems, the methods for solving them were generally the same and arise from the general principles of operation of a market orientated and to individual freedom think tanks.

Always extremely useful proved to be the publicity of the fundamental values, resources and intentions. Starting with the name, the Institute has always been open about what value system intends to analyze, comment and develop solutions. I think that my memory is accurate: IME is the first nongovernmental organization (except for the Open Society Fund), which is regularly audited by reputable auditors and which reports are completely public. Something more, we apparently never work only of interest for the money box of those, who we hoped to apply our ideas. We have always made an effort to convince the public at large that what we propose makes sense. During the last ten years 25% of the time of the people working with IME is dedicated to writing articles for the press and participation in radio and TV programs.

To be able to influence, the think tank must have community of ideas, mutual trust in them and common use of these ideas as a lens through which are observed and analyzed the processes. One experienced friend, who had managed the American Enterprise Institute for 21 years, calls this a school of thought in its classic meaning. This thinking is applied, the ideas should be implemented in practice, and they must be used in real life.

Among other things, when there is no fraternity of the philosophy, the analysis and the messages have no face. It is not possible to challenge them; they are not interesting at all. This to a large extend explains the popularity of IME.

The academic style is not very appropriate for IME and other similar institutes. The academic analysis and scientific justification are means to justify and convince that something must be done. In that sense we at IME really more often succeed in organizing the intellectual efforts better than the universities and the academic institutions. The list of pioneering research for Bulgaria is very impressive: the costs of the companies, the gray economy, the potential of the mortgage market, the investment companies, the informal labor market, etc.; without mentioning the ration of cost-benefits evaluation from passing and application of approximately 250 bills and regulations. The most specific for IME example of applied analysis is the so call "alternative" budget of the government. It has been produced by my colleagues and first and foremost by George Angelov for a number of years as an empirical confirmation of our thesis, that it is possible and useful to significantly reduce taxes, without significant cuts of the social obligations, if the government is willing to rationalize them.

Since the principals of market economy and freedom are contradictory to the prevailing in Bulgaria idea to live at the expense of others, these principles together with the developed on their basis research and recommendations were not always popular and almost always of the opposition. This fact alone makes the financing of institutes like IME an extremely difficult task.

Institutes like IME must accumulate ideas, which application is useful. This could not happen by itself. Very often a lot of mistakes are made. But even more often the application requires time. The ideas of the UK Institute of Economic Affairs for liberalization of prices and commerce were developed during 1955, but were implemented during the '80s. What IME was proposing during 1996 about the registration of the companies is being applied today. The idea of a flat and low tax had to wait eleven years. And again the application of both ideas is not the best possible.

Now we work for change of the EU. I think that one of my main mistakes was that I was not more radically against the Bulgarian membership of the EU.

GDP during 2007

Dimitar Chobanov

The National Statistical Institute announced the data about the gross domestic product (GDP) during 2007, which size is EUR 28 898.1 million in current prices. These numbers are preliminary and should be revised based on the annual information. In a similar manner was revised the data for 2006 (increase in the GDP by about EUR 138 million, which increased the base for comparison when calculation the growth for 2007) and for the first three quarters of 2007.

The growth of the GDP is a very important indicator for every economy. It defines to a large extent the economic freedom for the individuals. Many studies prove that the relation between the increase of the economic freedom and the growth rate of GDP is significant and positive, which means that reducing the size of the government, reducing the direct taxes and obstacles to the exchange and movement of capital, the privatization of part of the state

companies, limiting the control on the setting of prices and wages as a whole lead to improved growth. Besides that an important step in this direction is the introduction of the currency board arrangement, which insures the stability of the lev and leads to significantly lower inflation rates.

The measurement of the GDP is done by using two independent methods: the production method and the method of final use. According to the first Gross Value Added (GVA) and adjustments are measured. The real growth of the GVA during the year is 6.3%, the most dynamic development is observed for the industry – 14% real growth, which is a record high for this indicator. The main engine is the increased productivity of the companies as a result of the accumulation of physical capital during the years after the beginning of reforms in 1997.

The real growth of value added in services during 2007 is 7.5%, which is a continuation of the positive trend in recent years. The sectors with the greatest contributions are the real estate operations and tourism, which logically attract the largest portion of direct foreign investments.

The activity of the financial sector, which also shows significant growth, is reflected in the adjustments, which increase with 5.5%.

One of the main problems to realizing higher growth is the agricultural sector, where the reduction of production is drastic – 29.7% in real terms during 2007. Significant factor for this were the unfavorable meteorological conditions during the year, however the reasons for the high sensitivity to the weather conditions must be found in the insufficient investment in the sector. The solution, however, is not in the subsidies, since through them the efforts of the farmers are redirected towards getting more funding from non market sources, instead of improving the effectiveness of the production and improved competitiveness.

The real growth of the investment, expressed through the gross fixed capital formation reached 21.7%, which leads to increasing their share in the GDP to 29.8%. This is a prerequisite for increased growth, in the case when the decisions prove to be right. The second alternative is that non productive investments have been made, stimulated by the high inflow of capital and increased money stock, which is not covered by goods and services. The result from that is the growth of demand, which leads to inflation, increased consumption and imports. The investments, however, have decelerated their growth during the year, which combined

with the unfavorable global situation, related to the mortgage markets, means that the growth of the economy during the next year could possibly be reduced.

The final consumption shows a moderate rate of growth of 4.9% in real terms, while the imports grow by 9.9% and thus are a bit greater than the relative share of consumption in the GDP. The growth of exports is again behind that of the imports, which leads to increase in the trade balance deficit. The degree of openness of the economy also increases, where the foreign trade reaches 147.8% of the GDP, which is an indicator of the increased integration of Bulgaria with the European Union and its neighboring countries.

The preliminary data about the Gross Domestic Product indicate positive development during 2007. Regardless of the crisis in the agricultural sector, the economy managed to keep the relatively high rate of the previous years. The reforms in public spending in the area of education, healthcare and the state administration could affect positively the growth potential by contributing significantly to the effective allocation of budget funds. The subsidies for the agricultural sector will not improve the situation and the crisis in it will continue. The real growth rate in 2008 would be around 6%, while the probability for acceleration is low.

The Dundee Case – A Story of Hidden Nationalization

Adriana Mladenova

After more than two years of hassle and attempts to overcome the state machine and certain interests of the ruling circles, it looks like the Canadian company “Dundee” will start its projects in Bulgaria, but at a high price. The usual logic, that laws and rights of ownership must be respected, did not apply in the case. Neither the European Commission nor the country’s legal system succeeded in forcing the minister of ecology Mr. Dzhevdet Chakarov to obey the laws of the country. However, observing the right of ownership and respecting contracts is a prerequisite to the existence of a market economy. Without this necessary

condition we could not talk about any free market, effective judiciary system, free trade, etc.

For more than two years minister Chakarov refused to sign the EIA Report (Environment Impact Assessment). The report for the evaluation of the effects on the environment) of the projects for expanding the activities of “Dundee” and de facto was blocking the activities of the company. This month came out the news that an agreement was reached between “Dundee” and the Government. The royalty paid by the company will be increased between 2 and 8% of the value of the metal into the ore mined, which was estimated to be over 51 million leva per year under the current market conditions. During 2007 the revenues from royalties accounted to 1.73 million leva.

The other term of the agreement is the State participation with 25% share in the new processing plant, where the gold-copper concentrates will be processed to metals. According to the Prime Minister the revenues from the participation of the State will accumulate in the “Silver Fund” (a fund that aims to guarantee the long-term stability of the pension system in the country). This fund, however, does not exist yet, since the act about its creation has not been passed by the Parliament.

How did we get here?

As a retrospect of the events we will present the facts about the “Dundee” case:

- “Dundee Precious Metals” (Canada) bought “Chelopech Mining” JSC in September 2003, after the previous owner “Navan Mining” went bankrupt.
- The investment program of the company envisages that more than 260 million levs will be invested in the deposit.
- “Dundee’s activities lead to the creation of jobs on a local and regional level – 750 direct jobs at the mine + over 3 000 additional jobs with direct suppliers and subcontractors to the mine.
- The income per head in Chelopech and the near-by villages, where “Dundee” is one of the main employers, is more than twice higher than the average levels for the region and the country.
- In February 2005 the company got a **Certificate for first class investments**. According to the Encouraging Investments Act that means that the central and local government authorities should provide administrative services within periods one third shorter than those defined by the laws.
- During 2005 the company prepares REEE for the expansion and renovation of the Chelopech operation.
- On 18th of November 2005 – ran out the legal period within which the MEW had to sign the REEE.
- In December 2005 г. - Dundee filed a complaint with the Supreme Administrative Court (SAC).
- At the end of October 2006 – three-person panel of SAC ruled that minister Chakarov had to sign the EIA Report.
- During 2006 Dundee paid to the state budget over 22 million levs in the form of royalty fees, direct and indirect taxes and social security payments.
- During 2006 the European Parliament asked Mr. Dzhevdet Chakarov about the delay of the permission for the projects at Chelopech and Krumovgrad. The Minister argued that:
 - The local municipal councils were against the realization of the projects;
 - Greece and Turkey were against the project as there are risks of water contamination;
 - The agreement with “Dundee” is not in the best interest of Bulgaria due to the growing gold prices and the low royalty fees being paid to the state and the local municipalities.
- During 2006 “Chelopech Mining” became the first company in Bulgaria to get the international award “Green Apple” for best practices in environmental protection, which was awarded by the British ecological Green Organization.
- January 2007 – an article was published in the “Financial Times” where the Dundee case was discussed; *“Dundee is not the first foreign investor, which is forced to wait longer than the time defined by law in order to get permissions. Similar problem have approximately 400 companies”*.
- April 2007 – the decision that minister Chakarov must announce his decision about the EIA Report was confirmed by the five-members panel of SAC.
- “Dundee” made several proposals to the Ministry of Economics and Energy to raise the royalty payments.
- June 2007 “Dundee” submitted a complaint against Bulgaria with the European Commission for blocking the projects of the company.

The difficult questions

The Chelopech mine is one of the reaches deposits of gold in Eastern Europe. It is not by accident that when the prices of gold on the international markets were raised above critical values and the company “brought back to life” the mine by investing millions of leva in order to create a modern, effective and profit-making operation, the appetites toward the company increased.

Several times the minister of ecology made claims that the economic interests of the state are not protected when the agreement was signed with “Dundee”, although the ministry is not responsible for the economic issues but protection of the environment. On the other

hand, the attempts of the company to negotiate openly and to reach a new agreement, where it proposed voluntarily to pay higher royalties, remained unheard of.

Many questions remain unanswered and will be asked in the case of Dundee Company. Why exactly against “Dundee”? Why the laws and agreements are not respected by the state? Is there a danger for the other companies in this sector or other sectors could face similar destiny? Why were ecological arguments used when in reality the disagreements were based purely on economic interests? Why the government refused an open dialogue with the foreign investor and used approach which is quite similar to racketeering.

About the State Fees

Svetla Kostadinova

The list of all adopted bills during 2007 (available [here](#), in Bulgarian only) makes a very interesting reading. It includes a description of the bills according to the object of regulation. Thus we could find out, for example, how many new bills, regulations and decrees of the Council of Ministers or amendments of these are published: in the area of planting materials (6), pensions (3), new tractors (5), motor vehicles (18), medications (6), for additional funding (5), additional budget credits (8), banks (6), blasting materials, fire arms and ammunitions (4) etc.

This which comes to attention is the number of times bills have been adopted/amended related to the collection of state fees. The list shows that 28 changes have been passed, most of which are to increase the size of the fees.

What are the fees representing?

- The fees must **cover the costs** of the administration for the services provided and for the produced documents, certificates etc.
- Sometimes the fees act as a “**deterrent**” to the people from misuse of the time and resources of the administration
- The fees are **mandatory** for clearly defined services in the Bill for the state fees, and are defined in a decision of the

Council of Ministers and naturally – there are exceptions in the bill itself. According to the Bill, it does not apply to the fees collected by the state enterprises, as well as the fees collected according to the Bill for protection of the environment, the Bill about the railroad transport, the Bill for safe use of atomic energy and the Bill on waste management, the Bill for the sea spaces, internal waterways and ports of Republic of Bulgaria and the Bill about the protected territories.

Revenues to the national budget from state fees

	Actual	Absolute amount, leva*
December 2007	147,4%	712 781,7
December 2006	126,3%	676 973,7
December 2005	165,2%	791 010,7
December 2004	124,7%	490 918,9

Source: Ministry of finance

Note: * The exchange rate is fixed to 1Euro = 1.95583 leva

However, what is the reality?

- Since the administration has a natural incentive to create additional work in order to justify its existence, there are services for which fees are due, which logically must not exist, since this

represents over-involvement of the State in the economic life

- There are fees for services, which must be removed from the “portfolio” of the administration, i.e. the fee for the driver license exam for motor vehicles, for actions and services provided by the court bailiffs and translation of document from a foreign language into Bulgarian and vice versa;
- Some of the fees are much higher than the costs of the respective administrative service, which is against the logic of defining their size;
- Part of the services provided by the administration for which fees are paid, could be performed by the private sector (registrations, certification services etc.), but due to the state monopoly this is not

possible. This by itself gives the opportunity to define the size of the fees which could be lower due to the competition.

The result is that although the fees are the better alternative for revenues to the administration, which is paid only by the user, not by everybody, as it is with the taxes, in Bulgaria the fees are a significant load for the people and businesses. The fees are used well by the administration as a source of revenue, without however reducing the funds paid every year for the existence of the administration itself. Quite the opposite, in addition to the increasing costs of the administration there is an increase of its numbers, which in turn is a real danger for subsequent increase in the monopoly of the services, provided by it for which we again pay state fees.

Some Aspects from the New Sofia's Management Programme

Metodi V. Metodiev

A relatively short period of time had passed after the local elections in Sofia, where the political status quo remain the same. Several months after the elections the mayor of Sofia decided to present his program until 2011. One wanders about the time sequence of presenting the program and (long) passed elections. It is normal that every candidate for a political position, where he is elected by a number of people, which have the right to vote and have decided to exercise that right, to present in advance his vision, intentions and revenues with which to achieve some structured exact and clear aims. Unfortunately, for one reason or another, this did not happen. However, finally this week we could satisfy our curiosity about the publishing of the management program for Sofia.

What is in and what is not in the program?

Same as with the discussions of the 2008 budget of Sofia, in the revised management program the links with respect to revenues and expenses of the municipality are not clearly specified and supported by description of specific policies in both directions – revenues and expenses. In the management program it is foreseen an increase

in tax collection of up to 100% by 2011. The only measure specified in the program is the development of an information system, which would automate the activities of collection of taxes, fees and fines from physical person's and legal entities, according to the Bill on local taxes and fees. This could be taken as a positive step of administration of the process of collection of revenues by the municipality.

On the other hand it does not come even closer to the real discussion about the local taxes and fees. Approximately 57% of the Sofia's budget is formed by own revenues, such as real estate tax and revenues from property. From property tax are formed about 25% of the revenues in the Sofia budget, while the share of the fees is approximately 23%. We have to take into account the changes for 2008, which give higher degree of freedom to the municipalities to define their tax policy. They have the right to define the local taxes and fees within a range. The lower bound of the range is set to be the current levels of the rates. When we take into account this new, for the municipalities', situation nowhere in the program one could find any calculations about the effect on the economy of the Capital from increase or reduction of the taxes and fees. In other word, the principal position about the municipality's policies with respect to the main source of revenues of the budget is not clear.

The revenues from concessions for 2008 are estimated at 550 thousands levas, or 0.11% from its own revenues and 0.06% from the total budget. This is a very small share. In the program the idea for *“privatization of municipal companies outside of those related to communication services”* is specified. This is good news, but one has to think about directing resource towards formulating concession policy of the municipality and significant increase of the revenues to the budget.

In the management program up to 2011 are mentioned numbers of about 500-600 million levas as loans from various local and foreign financial institutions (EIB and EBRD etc.) related to various initiatives of the municipality. With respect to that the question about calculations of the cash flows of the municipality is raised. There is also the issue of financial ability to meet the agreed loans. The ratio loans/revenues or the total loans against own revenues at present is 16%, which at present is relatively stable level. The question then is what is the expected value of this ratio for 2011, assuming that the goals, resources and conditions for getting the loans are clear. In

principal, such calculations give more accurate information whether or not the municipality could cover with its own funds the loans. These data must be taken into account when calculating the revenues and costs of the municipality and the general financial management. As a whole in the budget for 2008 and in the management program such financial analysis is missing. In addition, no information is provided about the municipality debt – size of the loans, interest rates, type of credit, maturity etc.

Those are only several selected topics from the management program for Sofia until 2011. Overall the program suffers from lack of sufficient details, clarity and specificity. The information is presented in a telegraph stile without clear distinction of leading policies, which should be prioritized. Various indicators for success are not developed, specific deadlines and criteria for effective spending funds to support various municipal policies. This certainly makes analysis more difficult and causes the strange feeling of lack of certainty in the future.

Private Property?

Petar Ganev

In the Constitution of Republic of Bulgaria it is written that private property is sacred. This claim was often used recently with reference to the proposed by the Council of Ministers modifications in the Bill of State Property. It came about that the rulers stand firmly behind the idea of sacredness. Simply from time to time the property would become sacred for the owner himself.

Actually, “the public outcry” came about that the bill proposes that the state could expropriate forcefully private property using a fast track procedure not only for public but for **private** infrastructural projects. That could be done in the *“presence of state need, which could not be satisfied by any other way”*. One formulation catches the attention that *“regardless of their ownership the national infrastructural projects are with equal public importance – they are intended to satisfy needs of the entire society or*

some of its groups”. The understanding, that as the state projects, the private projects are important for society and the people is normal and logical. This however, does not mean that someone has the right to expropriate anything.

What actually means state or public need? According to some, for example, along the Black Sea coast there should be only beaches and we all should be happy with the wild nature, in other words regardless who is the owner of a particular land, he should not start any project. According to others, it is necessary to invest there, to build hotels and to develop all kinds of tourism. According to some others, there should be build pipelines which will turn the country into an economic tiger and important geopolitical centre. The contrast of opinions is present for every one question or project and has only one solution. It is not important who have what opinion on the subject. It is important who has the right to undertake the action. Only the owner of the land could decide what to do with it. It is not possible to have “state need” which abolishes this right. The state itself has no needs. Only the separate individuals have needs and the

idea of violating the right of some for the good of others is rather old idea. Such an approach has always had a negative effect on the behavior of the various economic agents and at least leads to a large number of misuses and sense of lack of equal rights and justice.

The contradictions in the idea about expropriating someone else's private property are fully apparent when this is done for a private infrastructural project. In the discussions in the media to some extent it was mentioned correctly that in reality the state becomes the intermediary in a deal between two private persons, which is not beneficial to one of them. Yes, however the state is not only going to be an intermediary but will directly initiate it without the agreement of the other side. Such practice will certainly cause enormous discontent, tension and naturally corruption.

It is interesting to note that all discussions about expropriating private property are based on the understanding that sometimes this is **the only way** to achieve certain objective. This however most likely is not the case. One could always find other solutions without the need to violate the Constitution. Naturally the easiest solution is simply to buy the property in question. At the end of the day those who invest in such projects must be ready for something like that. Even in case of a very problematic case (refusal to sell regardless of the price) there are probably mechanisms through which to reach a compromise. At the end of the day personal interest prevails, not just to oppose the state. We should not overlook the fact that all types of projects could be implemented in other places and using different routs.

The Labor Force and the "Import" of Workers

Zornitsa Manolova

There are a lot of talks recently about the shortage of labor in Bulgaria and the possible import of workers from abroad, which must fill the free job openings. It is important to clarify what causes this problem and what are the consequences from it and what could be done in order to satisfy all sides of the question.

For the reduction of the labor force there are three main reasons:

1) Natural Growth. During the last few years there is visible reduction of the natural growth of the population, it is observed and this is caused mainly by the reduction of the birth rate in the country. The result is aging population, when we take into account the increased duration of the human life. Similar problem exists in the countries of Eastern Europe and the countries from the former Soviet Union. Some of the concerns about this problem relate to the greater costs for healthcare, because the cost for the elder are higher, however, the pure logic suggests that the people live longer because they are in a better health – today they get better food, better working conditions, better healthcare system, and higher standard of living. On the other hand the reduction of the birthrate

is a result of greater employment of the women, as well as the better education of the population as a whole. More and more families decide first to earn enough funds to be able to raise their children and to provide them with better education. The coefficient of employment particularly that of the women is growing. Combined with the smaller number of people in the economically active group, the unemployment is significantly smaller.

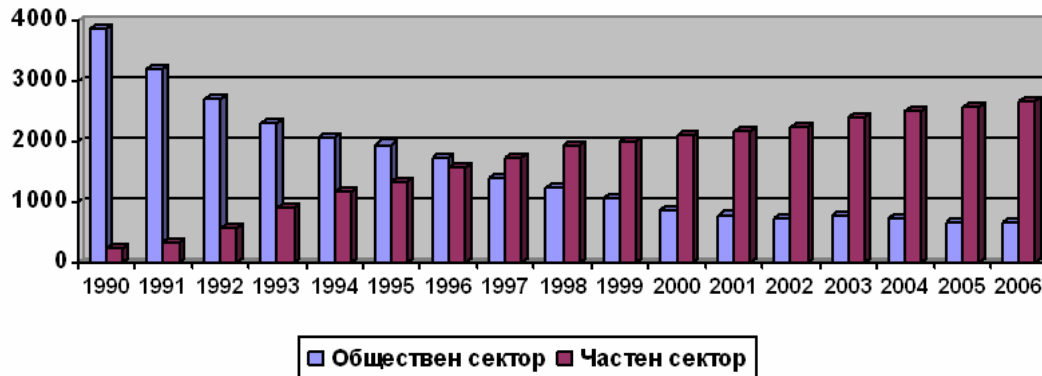
2) Migration of the Population. Particularly during the early years of the transition in Bulgaria, the migration processes affected significantly the number of the population. Migration is the expression of the personal desire of the people, caused by the lower wages, greater insecurity and the high unemployment. On the other hand this process is reducing the population in productive age, because migration is mainly for people who fall into this category, however, on the other the process is connected with positives as well such as exchange of experience, knowledge and the funds which the emigrants continue to send to Bulgaria. We should not overlook the internal migration of the population – from the villages towards the cities, which leaves a lot of free working places in the province. This is all a result from the choice of the individuals and it should not be neglected or prosecuted.

3) Growth of employment and the development of the economy. The third factor,

which causes a labor shortage, is the development of the economy and the opening of more jobs. This connected to restructuring of sectors and production, privatization, liquidation of ineffective production and activities, as well as from opening of new activities. The reasons for this trend are the multitude of radical reforms, directed towards the building of civic

society and market economy. An increased number of people are being employed by the private sector, while the numbers employed by the public sector is being reduced. The measured employment increases also due to some activities getting out of the “gray” sector, as a result of better market conditions and tax policy.

Persons employed by the private and public sectors (thousands)



Source: NSI

The result of all of the above is increase in the wages, where these in the private sector are higher (although the official data of the NSI indicate differently). The public sector is characterized by a large number of employed, but with lower salaries, which inevitably leads to lower productivity of labor. In the private sector the resources are greater, the salaries are higher and the productivity is greater. The increase of the salaries and the fewer seekers of jobs lead to bankruptcy some companies, which do not have the resources to retain their employees and could not respond to the increased wages. Another effect is the replacements of the sectors with low productivity (and a large number of employees) by those which create greater added value. Thus the employers complain about labor shortage in the country and insist on “import” of workers from a broad expecting to have lower costs. They are even preparing a strategy related to encouraging circular migration – the idea is to attract foreign employees for just 12 months. They are unlikely to create unfair competition to the Bulgarian applicants for work, and it is more likely that the employers would prefer Bulgarian workers since a worker who knows that he

would be working at a given place only 12 months, may not have enough stimuli to develop and grow within the hierarchy. Besides that the legal foreign workers most likely will be more expensive – the employers will have to cover a lot of expenses, such as transportation, rent of living quarters and the cost of integrating the foreigners. This makes unnecessary all strategies. The employers must themselves define what kind of worker they need and from where and how they could get them. In a functioning market, this of the labor, it is not necessary for the state to interfere with the demand and supply of the labor force.

During the process of development of the economy, connected to the higher standard of living and the gradual increase of the salaries, increased education and qualification of the population and economic reforms, the market itself will sort out the problem, if there is such. The improvement of the business environment will attract immigrants, will reduce the outflow of qualified specialists and will lead to increase in productivity.

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